

Message Text

LIMITED OFFICIAL USE

PAGE 01 TEL AV 08140 021502Z

43

ACTION NEA-10

INFO OCT-01 ISO-00 NEAE-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 /084 W

----- 085516

P 021355Z DEC 76

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC PRIORITY 4002

LIMITED OFFICIAL USE TEL AVIV 8140

E.O. 11652: N/A

TAGS: EFIN, IS

SUBJECT:GOI DRAFT BUDGET FOR FY 1977

REF: (A) TEL AVIV 7864, (B) TEL AVIV 6935, (C) TEL AVIV 8016

1. IN THIRD SESSION ON DRAFT BUDGET FOR FY 1977, LASTING SEVEN HOURS, ISRAELI CABINET ON NOVEMBER 30 APPROVED BUDGET CEILING OF IL 122.5 BILLION. THIS REPRESENTS A DECLINE FROM THE SECOND DRAFT (REF A) BUT AN INCREASE FROM ORIGINAL DRAFT BUDGET (REF B). NO DOCUMENT IS YET AVAILABLE SHOWING HOW THE APPROVED BUDGET COMPARES WITH THE PARTIAL DATA LEAKED EARLIER TO THE PRESS. DETAILED CENTRAL GOVERNMENT REVENUE AND EXPENDITURE FIGURES ARE NOT EXPECTED TO BE PUBLISHED PRIOR TO PRESENTATION TO THE KNESSET EARLY NEXT YEAR. THE ONLY FIGURES RELEASED SHOW REDUCTIONS FROM SECOND DRAFT OF IL 2 BILLION IN MINISTRIES EXPENDITURE (OF WHICH IL 500 MILLION IN DEFENSE, IL 300 MILLION IN HOUSING, AND IL 150 MILLION IN GRANTS TO LOCAL AUTHORITIES); AN INCREASE OF IL 800 MILLION, I.E.,FROM IL 1.8 BILLION TO IL 2.6 BILLION, IN THE SUBSIDY BUDGET; AN INCREASE OF IL 1 BILLION IN REVENUE THROUGH "IMPROVED TAX COLLECTION"; RISE OF

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 TEL AV 08140 021502Z

IL 250 MILLION IN RECIPITS FROM HIGHER INTEREST ON

DIRECTED CREDIT; AND INCREASE OF IL 500MILLION IN BUDGET DEFICIT TO STAND AT IL 5 BILLION. SINCE IT WAS ANNOUNCED THAT THERE WILL BE FURTHER DELIBERATIONS ON THE SIZE OF THE DEFENSE BUDGET, THE DEFENSE CUT MENTIONED ABOVE IS CLEARLY NOT YET FIRM.

2. IN HIS PRESENTATION STATEMENT, FINANCE MINISTER RABINOWITZ SAID THAT THE OVERALL CUT IS PRIMARILY AIMED AT CURBING INFLATION DURING CALENDAR YEAR 1977 FROM 30-32 PERCENT, AS PREDICTED EARLIER, TO 23-25 PERCENT. THIS GOAL, HE SAID, WILL BE ATTAINED BY THE FOLLOWING MEASURES: (A) RATE OF VAT WILL REMAIN STABLE AT 8 PERCENT, PROVIDED A LONG-TERM AGREEMENT ON WAGE RESTRAINT IS REACHED WITH HISTADRUT; (B) PRICES OF SUBSIDIZED COMMODITIES AND SERVICES WILL INCREASE BY 10 PERCENT LESS THAN ANTICIPATED; (C) THE INCREASES IN GOVERNMENT SERVICE FEES WILL NOT EXCEED 25 PERCENT, AS AGAINST A PREVIOUSLY PLANNED HIKE OF 40 PERCENT; (D) PRICES OF GOODS AND SERVICES WILL BE FROZEN TILL APRIL 1977, AFTER WHICH TIME PRICES WILL BE ALLOWED TO INCREASE GRADUALLY UNDER STRICT CONTROL (PROVIDED THE EMPLOYERS AGREE); (E) A TAX OF 100 PERCENT ON BUSINESS PROFITS IN 1977 WHICH EXCEED 1976 PROFITS (AGAIN PROVIDED THE EMPLOYERS AGREE); (F) INTEREST ON DIRECTED CREDIT TO INDUSTRY, AGRICULTURE, TOURISM AND HOUSING WILL GO UP BY 2-3 PERCENT; (G) CRRPING DEVALUATION WILL CONTINUE BUT WILL TOTAL ONLY 20 PERCENT IN 1977, RATHER THAN 25 PERCENT AS PLANNED EARLIER; (H) FUTURE TAX DEDUCTIONS, AND INCREASED NATIONAL INSURANCE INSTITUTE ALLOWANCES, WILL BE LINKED ONLY 70 PERCENT TO RISE IN COST-OF-LIVING INDEX, IN LIEU OF 100 PERCENT TODAY; (I) EFFECTIVE IMMEDIATELY, NEW GOVERNMENT BONDS WILL BE LINKED ONLY 80 PERCENT TO COL INDEX (IN LIEU OF PREVIOUS 90 PERCENT); (J) PENSION FUNDS WILL DEPOSIT A LARGER SHARE OF THEIR ASSETS IN GOVERNMENT SECURITIES (92 PERCENT INSTEAD OF 90 PERCENT); (K) A DECLINE IN COLA PAYMENT BY 1.5 PERCENT IN APRIL AND 4 PERCENT IN OCTOBER; AND (1) AN INCREASE OF 36 PERCENT IN NOMINAL GROSS WAGES, OR 3 PERCENT IN REAL DISPOSABLE WAGES.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 TEL AV 08140 021502Z

3. COMMENT: THIS LATEST DRAFT BUDGET AND THE ACCOMPANYING ANTI-INFLATION MEASURES WOULD REPRESENT A MODEST STEP IN THE RIGHT DIRECTION IF FINALLY APPROVED AND IMPLEMENTED. HOWEVER, THAT IS FAR FROM CERTAIN. NOT ONLY IS THE DEFENSE BUDGET STILL UNDECIDED, BUT BOTH HISTADRUT AND THE MANUFACTURERS' ASSOCIATION HAVE SHARPLY CRITICIZED VARIOUS OF THE PROPOSALS. HISTADRUT SECRETARY GENERAL MESHEL EXPRESSED STRONG DISMAY OVER

NOT BEING CONSULTED ON THE BUDGET CHANGES AND THREATENED TO
END PARTICIPATION IN THE GOVERNMENT-
HISTADRUT COMMITTEE ESTABLISHED TO WORK OUT A "PACKAGE DEAL" ON
WAGES AND PRICES UNLESS HISTADRUT IS CONSULED AND ITS VIEWS
TAKEN INTO CONSIDERATION. HE HAS AGREED, HOWEVER, TO
MEET WITH RABINOWITZ TOMORROW, DECEMBER 3. FOR ITS
PART, THE MANUFACTURERS' ASSOCIATION ISSUED A HIGHLY
CRITICAL STATEMENT STATING THAT THE PROPOSED BUDGETARY
CUT IS "ONLY AN ACCOUNTING EXERCISE" AND THAT THE
PROPOSALS WOULD DO NOTHING TO ACIEVE THE OBJECTIVES
OF REDUCED INFLATION, EXPANDED EXPORTS, AND THE TRANSFER
OF RESOURCES TO PRODUCTIVE INDUSTRY.

4. JERUSALEM POST OF DECEMBER 2 EDITORIALIZED THAT
"RABINOWITZ IS TRYING TO OPERATE WITHIN THE LIMITS
PERMITTED BY PUBLIC OPINIO, WHICH HAS PUT OUT OF BOUNDS
THE KIND OF RADICAL RMEDIES THAT WOULD CAUSE WIDESPREAD
PERSONAL HRDSHIP." THE PAPER EXPRESSES DOUBT THAT
EVEN RABINOWITZ'S MODES OBJECTIVES CAN BE ACHIEVED.
WE AGREE. THE INITIAL OUTBURST FROM BOTH LABOR AND THE
EMPLOYERS SUGGESTS THAT THERE WILL BE SLIPPAGE IN
SEVERAL AREAS. VIRTUALLY NO ONE BELIEVES THAT INFLATION
WILL BE REDUCED SIGNIFICANTLY NEXT YEAR BELOW THIS YEAR'S
ANTICIPATED 38-40 PERCENT. ON THE BOP FRONT, WE
UNDERSTAND THAT THE MINISTRY OF FINANCE IS NOW ESTIMATING
AN IMPROVEMENT OF ONLY \$150 MILLION IN NEXT YEAR'S
CURRENT ACCOUNT DEFICIT.
TOON

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET
Control Number: n/a
Copy: SINGLE
Draft Date: 02 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976TELAV08140
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760446-0474
From: TEL AVIV
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761277/aaaacovh.tel
Line Count: 143
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 TEL AVIV 7864, 76 TEL AVIV 6935, 76 TEL AVIV 8016
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 14 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 JUN 2004 by CunninFX>; APPROVED <07 OCT 2004 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOI DRAFT BUDGET FOR FY 1977
TAGS: EFIN, IS
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006